First South Farm Credit, ACA

FIRST QUARTER 2008

Stephen L. Rochelle
Chief Executive Officer

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Chief Financial Officer

Shepherd Morris
Chairman of the Board

April 28, 2008

First South Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South Farm Credit, ACA* (Association) for the period ended March 31, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2008, was $1,036,696, a decrease of $203,382, as compared to $1,240,078 at December 31, 2007. Net loans outstanding at March 31, 2008, were $1,030,396 as compared to $1,233,117 at December 31, 2007. Net loans accounted for 89.91 percent of total assets at March 31, 2008, as compared to 91.77 percent of total assets at December 31, 2007. The decrease in loan volume during the reporting period is primarily attributable to increased loan participations sold to the Bank. Loans are sold to the Bank as a capital and risk management tool. Loan volume before loan participations sold to the Bank increased for the three months ended March 31, 2008. This growth is primarily attributable to seasonal lending associated with the short-term part of the portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $3,520 at December 31, 2007, to $2,034 at March 31, 2008, a decrease of $1,486.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2008, was $6,300 compared to $6,961 at December 31, 2007, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2008

Net income for the three months ended March 31, 2008, totaled $5,482, as compared to $5,013 for the same period in 2007. Net interest income decreased $523 for the three months ended March 31, 2008, as compared to the same period in 2007. The decrease in net interest income was primarily the result of the decrease in loan volume associated with the increased loan participations sold to the Bank.

Noninterest income for the three months ended March 31, 2008, totaled $3,155, as compared to $2,678 for the same period of 2007, an increase of $477. The increase is primarily the result of an increase in loan fees of $270, an increase in equity in earnings of the Bank of $229, an increase in gains on other property owned of $1, and an increase in other noninterest income of $3, partially offset by a decrease in fees for financially related services of $26.

Noninterest expense for the three months ended March 31, 2008, increased $208 compared to the same period of 2007. The primary reasons for the increase in noninterest expense were an increase in salaries and employee benefits of $147, an increase in occupancy and equipment expense of $21, and an increase in other operating expenses of $51, partially offset by a decrease in the Insurance Fund premium of $11.

The Association recorded a reversal of provision for loan loss of $463 for the three months ended March 31, 2008, compared to a provision of $250 for the same period in 2007. The Association recorded a benefit from income taxes of $14 for the three months ended March 31, 2008, compared to a benefit of $4 for the same period in 2007.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2008, was $889,699 as compared to $1,088,297 at December 31, 2007, a decrease of $198,598 or 18.25 percent. The decrease in notes payable is primarily related to the decrease in loan volume associated with the increased loan participations sold to the Bank.

CAPITAL RESOURCES

Total members' equity at March 31, 2008, increased to $226,119 from the December 31, 2007, total of $225,996. The increase is primarily attributed to net income of $5,482 and an increase in capital stock of $182, partially offset by the retirement of allocated earnings of $5,497. Total capital stock and participation certificates were $64,640 on March 31, 2008, compared to $64,458 on December 31, 2007.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2008, the Association's total surplus ratio and core surplus ratio were 12.64 percent and 10.93 percent, respectively, and the permanent capital ratio was 13.90 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

STOCKHOLDER INVESTMENT

Stockholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association'website,*www.firstsouthfarmcredit.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, P. O. Box 6008, Ridgeland, MS 39158-6008. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2008	December 31, 2007
	(unaudited)	*(audited)*
Assets		
Cash	$ 3,852	$ 8,356
Loans	1,036,696	1,240,078
Less: allowance for loan losses	6,300	6,961
Net loans	1,030,396	1,233,117
Accrued interest receivable	14,543	17,313
Investment in other Farm Credit institutions	87,746	68,575
Premises and equipment, net	5,897	5,294
Other property owned	5	5
Due from AgFirst Farm Credit Bank	2,031	9,611
Other assets	1,527	1,388
Total assets	$ 1,145,997	$ 1,343,659
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 889,699	$ 1,088,297
Accrued interest payable	3,449	5,100
Patronage refund payable	6	3,843
Other liabilities	26,724	20,423
Total liabilities	919,878	1,117,663
Commitments and contingencies		
Members' Equity		
Protected borrower equity	98	111
Capital stock and participation certificates	64,542	64,347
Retained earnings		
Allocated	78,868	84,707
Unallocated	88,794	83,048
Accumulated other comprehensive income (loss)	(6,183)	(6,217)
Total members' equity	226,119	225,996
Total liabilities and members' equity	$ 1,145,997	$ 1,343,659

The accompanying notes are an integral part of these financial statements.

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Interest Income		
Loans	$ 19,246	$ 20,728
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	11,699	12,658
Net interest income	7,547	8,070
Provision for (reversal of allowance for) loan losses	(463)	250
Net interest income after provision for (reversal of allowance for) loan losses	8,010	7,820
Noninterest Income		
Loan fees	1,007	737
Fees for financially related services	(15)	11
Equity in earnings of other Farm Credit institutions	2,028	1,799
Gains (losses) on other property owned, net	2	1
Other noninterest income	133	130
Total noninterest income	3,155	2,678
Noninterest Expense		
Salaries and employee benefits	3,569	3,422
Occupancy and equipment	313	292
Insurance Fund premium	374	385
Other operating expenses	1,441	1,390
Total noninterest expense	5,697	5,489
Income before income taxes	5,468	5,009
Provision (benefit) for income taxes	(14)	(4)
Net income	$ 5,482	$ 5,013

The accompanying notes are an integral part of these financial statements.

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	$ 92	$ 64,236	$ 77,039	$ 82,008	$ –	$ 223,375
Net income				5,013		5,013
Capital stock/participation certificates issued/retired		84				84
Retained earnings retired			(8,459)			(8,459)
Patronage distribution adjustment			(126)	163		37
Balance at March 31, 2007	$ 92	$ 64,320	$ 68,454	$ 87,184	$ –	$ 220,050
Balance at December 31, 2007	$ 111	$ 64,347	$ 84,707	$ 83,048	$ (6,217)	$ 225,996
Net income				5,482		5,482
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/retired		195				195
Retained earnings retired			(5,497)			(5,497)
Patronage distribution adjustment			(342)	448		106
Employee benefit plans adjustments				(184)	34	(150)
Balance at March 31, 2008	$ 98	$ 64,542	$ 78,868	$ 88,794	$ (6,183)	$ 226,119

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of First South Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2008	**2007**
Balance at beginning of period	$ 6,961	$ 5,876
Provision for (reversal of) loan losses	(463)	250
Loans (charged off), net of recoveries	(198)	11
Balance at end of period	$ 6,300	$ 6,137

NOTE 3 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended March 31,	
	2008	**2007**
Pension	$ 184	$ 251
401(k)	62	59
Other postretirement benefits	108	86
Total	$ 354	$ 396

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	$ –	$ 790	$ 790
Other postretirement benefits	107	363	470
Total	$ 107	$1,153	$1,260

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 for the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by $184.

SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts are subsequently recognized as components of net periodic benefit costs over time. $34 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

Further details regarding employee benefit plans and application of SFAS 158 are contained in the 2007 Annual Report to Shareholders.